



## COVID-19 business support in 2020-21

### Memorandum for the Public Accounts and Public Administration Committee

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## Introduction

- 1 In his report as part of the [Welsh Government Consolidated Accounts 2020-21](#), the Auditor General drew attention to the effects of his prior year qualification of the 2019-20 financial statements in relation to business grants provided in response to the COVID-19 pandemic. The Auditor General qualified his true and fair opinion on the 2020-21 financial statements because they contain £0.7 billion of expenditure that should have been included in the 2019-20 financial statements. The Welsh Government does not agree with this position and has included this expenditure in its 2020-21 financial statements<sup>1</sup>.
- 2 The Auditor General's report also drew attention to disclosures in the Welsh Government's Governance Statement concerning the estimated level of fraud and error for COVID-19 business grants. The Governance Statement identifies that, from the reported incidence of fraud and 'Post Completion Monitoring' completed to date:
  - the Welsh Government has assessed a range of fraud and error of between 0.08% and 4.17%;
  - it applied this percentage range to expenditure of £893 million in 2020-21 on those schemes with enhanced eligibility requirements beyond initial flat rate support schemes; and
  - on that basis it has estimated a potential risk of fraud and error of between £0.7 million and £37.2 million from that £893 million of expenditure.
- 3 The Auditor General's report noted that there are 'uncertainties in this estimate as a result of data limitations'. Despite these uncertainties, the Auditor General stated that, 'I am satisfied that there is sufficient evidence to conclude that this does not constitute material expenditure in the Welsh Government's Consolidated Accounts'. For the Consolidated Accounts 2020-21, the materiality level is set at £175 million<sup>2</sup>.

<sup>1</sup> Our November 2020 [Commentary on the Welsh Government's Consolidated Accounts 2019-20](#) provided further explanation on the qualification. The Senedd Public Accounts Committee considered this matter part of its scrutiny and in its own [Scrutiny of Accounts 2019-20: Welsh Government](#) report in March 2021.

<sup>2</sup> Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## About this memorandum

- 4 We have prepared this memorandum for the Public Accounts and Public Administration Committee (PAPAC) to set out some additional information and support scrutiny of the Consolidated Accounts 2020-21. The memorandum is not exhaustive and focuses on the main financial support to business interventions administered by the Welsh Government in 2020-21 that have been the focus of our audit sample testing<sup>3</sup>. We outline:
- why the Welsh Government provided financial support to businesses impacted by the COVID-19 pandemic;
  - how much financial support the Welsh Government provided during 2020-21 and for what purposes;
  - how the Welsh Government is following up on risks relating to fraud and error; and
  - how the Welsh Government is evaluating the impact of its financial support.
- 5 In preparing this memorandum, we have drawn on:
- information from the Welsh Government's financial ledger system, Business Account – Customer Relationship Management – System (BAS), COVID-19 business support scheme guidance and other papers provided to us as part of our audit of the Welsh Government's 2020-21 accounts;
  - other Welsh Government management information about the number of businesses benefiting from support, which we have not audited ourselves; and
  - other public domain information, including evaluation reports by Economic Intelligence Wales (see **paragraphs 42 to 43**).
- 6 We have not sought to form our own view of the economy, efficiency, or effectiveness (value for money) of the administration of the financial support, including the wider impact on Welsh businesses. Nor have we undertaken any further testing of the control arrangements beyond the high-level work necessary to support the Auditor General's opinion on the Welsh Government's Consolidated Accounts in 2019-20 and 2020-21. However, we may undertake further work on this topic taking account of the additional support provided through 2021-22 and further evidence that may emerge about value for money, including from the Welsh Government's ongoing Post Completion Monitoring.

<sup>3</sup> Other funding commitments provided additional or repurposed support to specific sectors or in specific circumstances. For example, support provided to the cultural and creative sector.

## Why did the Welsh Government provide financial support to businesses impacted by the COVID-19 pandemic?

- 7 Across the UK, the impacts of the COVID-19 pandemic led to unprecedented measures to protect people and the economy. The UK Government and the Welsh Government, along with the other UK nations implemented national lockdowns on 23 March 2020. All non-essential retail, hospitality, leisure, and a range of other businesses closed. Other sectors were also heavily affected, including manufacturing, construction, consumer goods, and businesses supplying them. Businesses that remained open needed to adapt ways of working to ensure that they could operate both legally and safely, in line with COVID-19 guidelines.
- 8 The UK Government announced it would provide funding directly to businesses to pay a proportion of staff wages, through the Coronavirus Job Retention Scheme (the 'furlough scheme'); which launched in March 2020, ran until September 2021 and was available to eligible businesses, including in Wales. The UK Government also provided the Self-Employment Income Support Scheme; Business Loan Interruption Scheme; and Statutory Sick Pay Rebate Scheme, among others, which eligible Welsh businesses could access. The Welsh Government set out details of the early UK Government support in an [evidence paper](#) to the Senedd Public Accounts Committee in June 2020.
- 9 In addition to the UK-wide support, the Welsh Government recognised the specific needs of the Welsh economy and introduced its own complementary packages of financial support for Welsh businesses. In its evidence paper to the Public Accounts Committee in June 2020, the Welsh Government emphasised that its own economic interventions were intended to:
  - help businesses survive the shock of sudden and significant drops in revenues, resulting from the coronavirus pandemic and from the enforced lockdown measures necessary to control the spread of the virus; and
  - increase the chances of businesses surviving and of safeguarding employees' jobs.
- 10 To enable a rapid response, the Welsh Government administered discretionary and targeted grants itself and used the 22 local authorities in Wales as its agents to administer some grants, predominantly property related non-domestic rates based grants, alongside rate relief. The Development Bank of Wales also provided business loan support in advance of the UK Government launching its Bounce Back and wider loans services. Given the imperative to provide support quickly, the Welsh Government made clear that it was increasing its risk appetite. It accepted that verification checks which it would expect to undertake in normal operating conditions might not be possible and that this may increase the inherent risk of fraud and error.
- 11 As noted in its 2020-21 Governance Statement, the Welsh Government considers that the controls it put in place around application and award were proportionate,

effective, and provided adequate safeguards for public funds. However, we found through the testing undertaken for our audit of the Welsh Government’s 2020-21 Consolidated Accounts that while there were some checks on some of the eligibility criteria before grants were paid, these checks were not systematic or always documented.

## How much financial support did the Welsh Government provide during 2020-21 and for what purposes?

12 **Exhibit 1** summarises the main components of the financial support to businesses included in the Welsh Government’s 2020-21 financial statements but, as noted in **paragraph 4**, is not exhaustive. The £2.1 billion sum represented includes £92 million of loan support provided through the Development Bank of Wales<sup>4</sup>. However, the focus of the remainder of this memorandum is on the support administered by the Welsh Government and local authorities. **Appendix 1** provides a more detailed breakdown of that grant and rate relief support and details of the number of grant awards.

### Exhibit 1: main components of the financial support for business included in the Welsh Government’s 2020-21 financial statements

Financial support	Details
<p><b>COVID-19 Non-Domestic Rates (NDR) Grant Scheme</b></p> <p>£730 million<sup>1</sup></p>	<p>This scheme made a grant of £25,000 available for retail, leisure and hospitality businesses occupying properties with a rateable value of between £12,001 and £51,000, and a £10,000 grant for businesses eligible for small business rates relief (SBRR) in Wales with a rateable value of £12,000 or less.</p> <p>Local authorities administered this scheme on behalf of the Welsh Government. It applied to properties that were on the NDR rating list on 20 March 2020. But with local authorities able to apply discretion regarding eligibility if the ratepayer was not on the list at that date. <b>Paragraphs 28 and 29</b> consider changes to the eligibility guidance for self-catering accommodation in April 2020.</p>

<sup>4</sup> The Auditor General is not the external auditor of DBW. However, DBW is one of the entities that is part of the Welsh Government ‘group’ structure and whose results are consolidated into the Welsh Government’s financial statements.

Financial support	Details
<p><b>Business Rates Relief</b></p> <p>£356 million</p>	<p>The Retail, Leisure and Hospitality Rates Relief scheme for larger properties, administered by local authorities, provided rates relief to eligible ratepayers for 2020-21 (separate to pre-existing Small Business Rates Relief arrangements). The scheme aimed to provide support for eligible occupied premises with a rateable value of £500,000 or less, by offering a discount of 100% on the non-domestic rates.</p>
<p><b>Economic Resilience Fund (ERF)</b></p> <p>Phases 1-4 administered by the Welsh Government:</p> <p>£318 million</p>	<p>The ERF was a Welsh Government initiative designed to support businesses' cash flow with funding for short term operating cost expenditure to help them survive the economic consequences of the pandemic.</p> <p>The ERF sought to complement and not duplicate other COVID-19 response measures. Working alongside the NDR scheme, it was available to those not eligible for other schemes or those still in difficulty and deficit having already received the NDR funding available. It was intended to fill residual and emerging gaps, to support eligible enterprises with the fixed costs of remaining in operation, while suffering from a significant reduction in turnover resulting from the pandemic.</p> <p>The scheme offered support to businesses closed by lockdown restrictions as well as providing some sector specific support.</p>
<p><b>Other support administered by local authorities</b></p> <p>£575 million</p>	<p>Following on from the initial NDR grants and rates relief support, local authorities administered other elements of support for businesses later in 2020-21 as further restrictions were imposed. The majority of this support was linked with NDR eligibility, along with some smaller discretionary funds.</p> <p>This support was designed to complement the overall package of Welsh Government administered ERF support through its various phases and included start up grants, the NDR lockdown fund and the business restriction fund.</p>

Financial support	Details
<p><b>COVID-19 Wales Business Loan Scheme</b></p> <p>£92 million</p>	<p>Available for companies experiencing cash flow problems because of the pandemic, the Development Bank of Wales (DBW) provided loans of between £5,000 and £250,000, fixed at 2% with an interest and capital repayment holiday for the first 12 months.</p> <p>DBW commented on the support provided in its <a href="#">2020-21 Annual Report</a>.</p>

Note:

<sup>1</sup> As set out in **paragraph 1** of this memorandum, this £730 million sum should have been accounted for in 2019-20. The Welsh Government does not agree and included this expenditure in its 2020-21 financial statements. The Welsh Government also accounted for £42 million of NDR grant support in 2019-20 which is not in the £730 million.

Source: Audit Wales summary drawing in part on Welsh Government financial ledger data and our review of other contextual information.

13 The support provided evolved over time, reflecting developments as additional COVID-19 related funding became available to the Welsh Government and the targeting of support to specific sectors that were most impacted by ongoing restrictions. Within the four phases of the Economic Resilience Fund (ERF) support administered by the Welsh Government during 2020-21, the support measures included packages for different sizes of business covering:

- micro businesses employing between 1 and 9 people;
- small and medium enterprises employing between 10 and 249 people; and
- large businesses employing 250 people or more.

## How is the Welsh Government following up on risks relating to fraud and error?

### Welsh Government administered schemes

14 At the start of the pandemic, it was unclear to the Welsh Government how long arrangements for financial support to business might need to last or how these arrangements might need to evolve to respond to changing circumstances. The Welsh Government set eligibility criteria for the schemes it administered as part of its guidance notes. As the situation evolved and regulations changed these criteria developed across the different schemes and phases, with increased digitisation of the application process supported by online tools for businesses to be able to

check eligibility before application windows opened. The Welsh Government's pre-payment controls also evolved over time as lessons were learnt.

- 15 Some of the scheme eligibility criteria could be and were checked at the time of the application, for example creditsafe checks (a website check that the business exists), and bank account checks. To enable faster payment processing a fully comprehensive, business as usual, appraisal was not feasible and the Welsh Government relied upon self-declarations for certain aspects of the eligibility criteria, such as turnover. The Welsh Government committed to doing additional checks post payment on the schemes it directly administered, with applicants and those granted awards being made aware of the prospect of these checks.
- 16 The Welsh Government has reported to us an average application rejection rate of 25% across the schemes it administered in 2020-21, which it considers demonstrates the effectiveness of controls at the application stage<sup>5</sup>. Reasons cited by the Welsh Government for the rejection of applications include not meeting the criteria, speculative applications, error/mistake, or those arousing suspicion of fraud or malpractice.
- 17 The Welsh Government's 'Post Completion Monitoring' is aimed at ensuring that grant terms and conditions were adhered to and addressing instances of incorrect awards. It is also being used to consider the performance of the business in terms of their commitments such as jobs protected, with a view to taking recovery action where relevant. The timing for Post Completion Monitoring was set initially at 12 months after payment.
- 18 Working alongside its existing Monitoring and Due Diligence team, the Welsh Government has established a new team of ten staff to work on Post Completion Monitoring, focusing on grants to micro and SME businesses. Monitoring for larger businesses will be undertaken as part of the Welsh Government's business as usual monitoring arrangements for financial support to business.
- 19 Exactly how long the Post Completion Monitoring work will take to complete is not clear and the prioritisation of resources to support the ongoing COVID-response has had some impact on progress. The new team was created initially for a period of two years, with eight new staff members recruited from outside the Welsh Government and on fixed term contracts ending in summer 2023. The other two team members are Welsh Government civil servants with relevant experience. The Welsh Government has noted that many of the businesses supported during the pandemic were not used to dealing with Welsh Government grant funding arrangements. This has made some of the engagement with businesses around Post Completion Monitoring more difficult and time consuming than might normally be expected.
- 20 The Welsh Government has also established an 'oversight group' to advise on the programme of Post Completion Monitoring, monitor progress and provide quality

<sup>5</sup> In the case of the support available to micro businesses during phases 1 and 2 of the Economic Resilience Fund, the Welsh Government has also reported to us that 40% of those accessing the online triage pre-application did not progress to application.

assurance. Membership of the group, which met for the first time in December 2021, includes senior officers from within the Welsh Government's Economy, Treasury and Constitution Group as well as from central functions including finance, the grants centre of excellence and internal audit/counter-fraud.

- 21 Although the plans for Post Completion Monitoring cover all the grant awards the Welsh Government administered, it has decided to adopt a tiered approach reflecting the numbers of businesses supported of different sizes, resource and time constraints and consideration of costs vs benefits. In summary, the approach adopted to date for phases 1 and 2 of the Economic Resilience Fund has been:
- Micro businesses: the Welsh Government has adopted a survey-based approach, asking simple questions to establish whether the business is still operating and how many people are being employed.
  - SME businesses: the Welsh Government has identified that those SMEs with higher value awards of over £30,000 – accounting for around half of the SMEs supported during these phases but around three quarters of the total value of support for SMEs – would be subject to fuller Post Completion Monitoring by report and supporting financial evidence. For the other businesses, the Welsh Government again opted for a survey-based approach in the first instance but indicating to businesses that it reserves the right to contact them again if selected as part of random sampling for further follow up. The assumption has been that around 20% of the surveyed businesses would be sampled for follow up, but with this being kept under review as the process moved forward across different phases of support.
  - Large, non-SME, businesses: the Welsh Government is undertaking fuller Post Completion Monitoring in line with its business-as-usual monitoring approach for business support, again requiring submission of relevant evidence including around drops in turnover (which was a key eligibility criteria).
- 22 At the time of completion of our audit of the 2020-21 Consolidated Accounts, in July 2022, the Welsh Government informed us that for phases 1 and 2 of the Economic Resilience Fund it had:
- issued 9094 surveys to micro businesses supported during phases 1 and 2, receiving returns from 3029 (33%).
  - issued 2527 surveys to SMEs, receiving returns from 1370 (54%) – the fuller PCM for these phases had not been completed.
  - issued requests for information to 52 large businesses, receiving returns from 41 (79%).
- 23 Having been through a further pilot, Post Completion Monitoring for phase 3 was underway with plans to progress the arrangements for later phases of support over the summer.
- 24 While the Welsh Government considers that its controls have been good, a view that has also been reflected by its Head of Counter Fraud, it has identified some areas that, with hindsight and from a counter-fraud perspective, could have been

considered for their reasonableness and proportionality. These included making more extensive use of the CIFAS National Fraud Database (NFD) at the application stage. The database provides a real-time fraud prevention tool that could have been used pre-award to identify fraud or persons/organisations applying for support. We understand that the database had been used in around 10% of cases (which Welsh Government officials have told us were identified as higher risk), but that bulk uploads were possible and could have provided 100% results within 24 hours.

- 25 Collecting additional personal data on application forms may also have assisted with these checks and follow-up to some extent, albeit with data handling considerations. The Welsh Government has noted that the biggest mitigation of risk would have been if it had been able to link to Her Majesty's Revenue and Customs data for validation, but that this was not possible under legislation.
- 26 For phase 3 of the Economic Resilience Fund, and building on earlier declaration and grant award processes, the Welsh Government took the additional step of issuing an 'amnesty' style communication to grant recipients by email in advance of Post Completion Monitoring. This asks businesses to consider if they are still able to comply with the grant terms and conditions. Mobilising resources, had they been available and able to be prioritised, to start the Post Completion Monitoring phase more quickly would also have been beneficial from a counter-fraud perspective.

## Local authority administered schemes

- 27 For schemes in which local authorities acted as agents of the Welsh Government, local authorities were required to administer the grants in-line with Welsh Government guidance, including details of eligibility criteria. The Welsh Government relied heavily on local authorities' existing systems and controls to make the payments to businesses as its 'trusted partners'. There were mechanisms in place to support dialogue between Welsh Government officials and local authority officers as schemes were developed and delivered, as well as data sharing agreements. However, the Welsh Government has emphasised that the design of the system of monitoring and control was ultimately the responsibility of local authority 'Section 151' officers in keeping with the wider statutory duties of those officers around the proper administration of local authorities' financial affairs.
- 28 As with the Welsh Government administered schemes, these criteria evolved across and sometimes within individual phases of support. For example, early in the pandemic in April 2020, the Welsh Government issued updated guidance which set out specific criteria concerning self-catering accommodation and eligibility for grant support amid concerns about a potential loophole regarding second home ownership. Nonetheless, the Welsh Government's guidance on grant awards emphasised that final decisions to provide grant support ultimately lay at the discretion of the local authority with the aim of providing support to genuine businesses that were negatively impacted.
- 29 We are aware that the question of discretion has given rise to some concerns about the consistency of approach applied by different local authorities, taking

account of their specific circumstances and including practical constraints relating to the resources required to process and check applications in a timely way. In plenary on 26 January 2021, the First Minister confirmed the Welsh Government's position that, "Discretion will mean that some local authorities go about that in ways that others do not. That is in the nature of discretion".

- 30 While the Welsh Government has collated some information from local authorities, it has not sought to formally evaluate the full extent or significance of any differences in the approaches adopted, whether in terms of authorities' design of their systems of control at the point of application, their ultimate decisions on the award of grants, or their arrangements for post payment monitoring. Information we reviewed through our sample testing of applications for the audit of the 2020-21 Consolidated Accounts identified varying practices. Information that the Welsh Government has gathered about fraud policies, membership of teams responsible for planning the grant schemes, the request of bank statements as part of due diligence, and 'exception reporting' such as the same bank accounts for more than one applicant, also highlights some differences in approach between authorities.
- 31 The Welsh Government has required that local authorities complete a 'Schedule 6 Annual Statement of Grant Expenditure' signed by the Section 151 officer to provide assurances which included that systems and controls were in place to ensure that the grant was used solely for the purposes for which it was given. As at July 2022, when we were concluding our audit of the 2020-21 Consolidated Accounts, the Welsh Government had received returns for 2020-21 from 19 of the 22 local authorities, although 10 of these returns related only to the first phase of NDR grants launched in March 2020. The Welsh Government had not identified any areas of concern or non-compliance from its review of those returns. Nevertheless, there is still outstanding work for the Welsh Government to do in this area to comply with its own control framework and that we would expect to be concluded this year.
- 32 The Welsh Government has also sought information from local authorities about the incidence of fraud or error. At the close of our audit, it had received 'fraud returns' from 18 of the 22 authorities<sup>6</sup>. Based on the first 17 of these returns, the Welsh Government has identified that local authorities' application controls resulted in around 14% of applications being rejected pre-payment, which it considers demonstrates that applications controls were in place and operating effectively.
- 33 One component of the control arrangements is evidence from data matching through the National Fraud Initiative (NFI). As part of the 2020-21 NFI work programme, the Auditor General mandated that local authorities in Wales provide data on COVID-19 grants for data matching purposes (21 of 22 did so). Local authorities were required to provide details of the £10,000 grants to small businesses and of the £25,000 grants available for retail leisure and hospitality

<sup>6</sup> All authorities had completed either a Schedule 6 return of fraud return at that point, but only 15 had completed both. One of the fraud returns was only received on 21 July 2022 and evidence from it is not reflected in the Welsh Government analysis that we considered in finalising our audit.

businesses through the initial NDR linked grants support package launched in March 2020 (see **Exhibit 1** and **Appendix 1**).

- 34 The grants data was matched to ensure that businesses did not receive more support grants than they were entitled to, and grant recipients were matched against fraud watch lists to ensure the recipient was not a suspected fraudster. The data matches were provided to local authorities to review. Only a relatively small number of instances of fraud or error were identified in respect of the duplication of grant awards, amounting to £20,000. However, this exercise was not designed to address other potential ways in which these funds could have been fraudulently misused for example, grants being claimed by organisations who had ceased trading before the pandemic, or impersonation fraud where fraudsters had masqueraded as a genuine business resulting in public funds being diverted into non business accounts.
- 35 The UK NFI Team has since developed data-matching products to enable public bodies to undertake bank verification and trading status checks on organisations that have applied for grant funding. These products were offered to local authorities across Wales but at a cost. One local authority did still take up the option of using the products in conjunction with other internal controls. At 31 March 2022, it had identified fraud and error amounting to £570,000 relating to 41 grant awards. The Senedd Finance Committee has since approved funding for the Auditor General to make these products available to local authorities without charge. We have written out recently to local authorities to gauge their wider interest in conducting these checks if further access to them can be secured.

## The Welsh Government's estimate of fraud and error

- 36 We substantially completed our audit work on the Welsh Government's 2020-21 Consolidated Accounts in autumn 2021. At that time:
- for the first phase of local authority administered NDR related grants and rate relief, amounting to £1.1 billion, our sample testing did not identify any significant eligibility issues with payments made under these schemes. The schemes had limited eligibility criteria based on business type, rateable value and other criteria which could be checked before the grants were awarded.
  - for other grant schemes amounting to £893 million the eligibility criteria were wider with the express view of protecting the public purse. We were unable to obtain sufficient appropriate audit evidence to confirm that these grants had been paid to eligible businesses and the Welsh Government had not collated sufficient information with which to quantify the potential level of fraud and error across these grants.
- 37 However, the delay to the accounts process has provided more time for the Welsh Government to take account of evidence collected from local authorities and from its own Post Completion Monitoring as described in **paragraphs 17 to 23**. From this evidence, the Welsh Government has currently assessed a range of fraud and

error of between 0.08% and 4.17%<sup>7</sup>. The Welsh Government applied this percentage range to the £893 million of expenditure on schemes with enhanced eligibility criteria<sup>8</sup>. On that basis, the Welsh Government estimated a risk of fraud and error of between £0.7 million and £37.2 million.

38 We have set out below some of the further detail that has informed the Welsh Government's estimate, as at July 2022:

- the Welsh Government identified an error incidence rate of 97 (2.21%) from the 4,399 Post Completion Monitoring returns that it had received from micro and SME businesses receiving grant funding in phases 1 and 2 of the Economic Resilience Fund. It also reported to us recovery of £1.6 million (0.88%) to date from Post Completion Monitoring on phases 1 and 2<sup>9</sup>.
- the Welsh Government had identified one case of recovery to date from the 24 survey responses that had been received from SMEs supported through the Business Development Grant in phase 3 of the Economic Resilience Fund. This equated to an error rate of 4.17%.
- the Welsh Government identified 142 cases of fraud or error from 16 local authority fraud returns. It extrapolated this figure to estimate a total of 195 cases (0.08%) across 246,127 individual grant awards by local authorities in 2020-21.

39 As the Auditor General noted in his report on the 2020-21 Consolidated Accounts, we consider that there are uncertainties in the Welsh Government's estimate as a result of data limitations. In each of the cases above, the calculations relate to the percentage incidence rate from a total number of grant awards rather than the value of the incidences relative to the overall expenditure, while the range of results has been applied across the total mix of Welsh Government and local authority administered schemes. The estimates are based on the emerging evidence to date, so may not be representative. For the higher end estimate of 4.17% that flows from one of the Welsh Government administered schemes, the

<sup>7</sup> There are different contexts to the analysis of fraud and error for grant schemes administered in other parts of the UK, with certain limitations also being identified in those cases. For three initial grant schemes, the UK Government's Department for Business, Energy and Industrial Strategy estimated in its Annual Report and Accounts 2020-21 a level of fraud and error of 8.9% (this was a central estimate based on a range from 4.4% to 13.4%). The Department noted that it expected the level of fraud and error to be lower for some other schemes that had not been assessed at the time. In its Consolidated Accounts for the Year Ended 31 March 2021, the Scottish Government set out evidence which led it to express its confidence that '...a reasonable estimate of fraud can be no more than 1-2%...'

<sup>8</sup> This £893 million base includes the £318 million of Welsh Government administered ERF support and £575 million across the later phases of local authority administered support (see **Exhibit 1** and **Appendix 1**).

<sup>9</sup> The Welsh Government has emphasised to us that this figure on recovery relates only to that resulting directly from Post Completion Monitoring. We understand that some funding has been voluntarily returned for various reasons but is not included in this figure.

number of Post Completion Monitoring survey responses informing the current estimate is a small fraction of the total number of awards (see **Appendix 1**).

- 40 For the lower end estimate that flows from the results reported by local authorities, we note that some local authorities that have submitted returns have not reported any cases of fraud or error. A complete absence of any cases of fraud and error would seem unlikely in practice, albeit that such cases may not have been identified to date. We have noted in **paragraphs 33 to 35** the limitations in the initial data matching undertaken through the NFI and that in one case where additional checks have been conducted this has identified additional cases of fraud or error.
- 41 Despite these limitations, and in the context of a materiality level of £175 million for the Welsh Government's 2020-21 Consolidated Accounts, the Auditor General noted in his report that he is satisfied that there is sufficient evidence to conclude that the rate of fraud or error does not constitute material expenditure.

## How is the Welsh Government evaluating the impact of its financial support?

- 42 The Welsh Government has commissioned research to help evaluate its COVID-19 economic interventions through the Economic Resilience Fund and related support packages, including the loan funding provided through the Development Bank of Wales. It is important for the Welsh Government to understand the impacts of this support and how far it has assisted business survival and recovery prospects. The research, by Economic Intelligence Wales<sup>10</sup>, can also inform the design and delivery of any future support. The overall research programme, which we understand is costing around £240,000 excluding VAT in total, seeks to:
- examine the impact generated by interventions put in place;
  - explore how these funds employed in Wales worked together with UK-wide initiatives to safeguard economic activity in Wales;
  - provide a gross level summary of outcomes from the selected interventions; and
  - provide a value for money assessment in relation to cost per job safeguarded by the interventions.
- 43 Economic Intelligence Wales have published two reports so far<sup>11, 12</sup>. We understand that a further three reports are planned – in autumn 2022, spring 2023 and winter 2023. The scope, findings, and conclusions from the two reports to date

<sup>10</sup> Economic Intelligence Wales is a collaboration between the Development Bank of Wales, Cardiff University Business School, and the Office for National Statistics.

<sup>11</sup> Economic Intelligence Wales, [Covid-19 Welsh Government financial interventions: An analysis of Welsh beneficiaries](#), December 2020

<sup>12</sup> Economic Intelligence Wales, [Covid-19 Welsh Government financial interventions: An analysis of administrative and beneficiary survey data](#), April 2022

are best considered in their full context and we have not sought to summarise them in this memorandum. The reports point to some positive findings about the importance and impact of Welsh-led interventions alongside UK Government support. They also emphasise certain caveats and highlight areas for further research and analysis in the context of what is a longitudinal research programme.

# Appendix 1

## Breakdown of grant and rate relief support

Financial information is taken from Welsh Government's financial ledger for the period April 2020 to March 2021. There are some inconsistencies between this and other information in the public domain which the Welsh Government has noted is likely to reflect differences in timing between data sources, particularly where data crosses financial years.

Economic intervention	ERF phase	Expenditure accounted for in 2020-21 (£ millions)	Administered by	Dates scheme operated	Number of awards
NDR Grant	N/A	730 <sup>1</sup>	Local authorities	March to June 2020	66,252
Rates Relief for retail, leisure, and hospitality	N/A	356	Local authorities	N/A	Not available at time of drafting
Micro Business Resilience Grant	Phases 1 and 2	90	Welsh Government	April to July 2020	9,094
SME Business Resilience Grant	Phases 1 and 2	92	Welsh Government	April to July 2020	2,527
Non-SME Business Resilience Grant	Phases 1 and 2	17	Welsh Government	April to July 2020	52

Economic intervention	ERF phase	Expenditure accounted for in 2020-21 (£ millions)	Administered by	Dates scheme operated	Number of awards
Bursary & Discretionary Fund (Start Up)	Phases 1 and 2	4	Local authorities	June to September 2020	1,641
ERF3 Micro Business Development Grant	Phase 3	9	Welsh Government	October to November 2020	1,025
ERF3 SME Business Development Grant	Phase 3	19	Welsh Government	October to November 2020	805
ERF3 Tourism and Hospitality Grant	Phase 3	19	Welsh Government	October to November 2020	
Local Lockdown Business Fund	Phase 3	139	Local authorities	October to November 2020	54,852
ERF Sector Specific Funding Micro Business Restrictions	Phase 4	24	Welsh Government	January to February 2021	4,424
ERF Sector Specific Funding SME Business Restrictions	Phase 4	22	Welsh Government	January to February 2021	1,140
ERF Sector Specific Funding Non-SME Business Restrictions	Phase 4	1	Welsh Government	January to February 2021	9
NDR Business Restrictions Fund	Phase 4	282	Local authorities	December 2020 to March 2021	123,382
NDR Business Restrictions March	Phase 4	150	Local authorities	March 2021	
ERF Sector Specific Funding Phase 2 SME	Phase 4	23	Welsh Government	March 2021	1,142

Economic intervention	ERF phase	Expenditure accounted for in 2020-21 (£ millions)	Administered by	Dates scheme operated	Number of awards
ERF Sector Specific Funding Phase 2 Non-SME	Phase 4	2	Welsh Government	March 2021	8
<b>Total</b>		<b>1,979</b>			<b>266,353<sup>2</sup></b>

Notes:

<sup>1</sup> As set out in **paragraph 1** of this memorandum, this sum of £730 million should have been accounted for in 2019-20. The Welsh Government does not agree and included this expenditure in its 2020-21 financial statements. The Welsh Government also accounted for £42 million of NDR grant support in 2019-20 which is not in the £730 million.

<sup>2</sup> A figure for the number of unique businesses supported across all schemes in 2020-21 is not readily available.

Source: Welsh Government financial ledger, Audit Wales review of other contextual information and Welsh Government management information (unaudited) on the number of awards.

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We welcome correspondence and telephone calls in Welsh and English.  
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